

## WISCONSIN MEDICAID PROGRAM 2003 NURSING HOME COST REPORT INSTRUCTIONS

Completion of the Wisconsin Medicaid Program Nursing Home Cost Report (HCF-1812) is required by Section 1.171 of the Methods of Implementation for Wisconsin Medicaid Nursing Home Payment Rates. This document provides instructions for the completion of the Cost Report schedules. Failure to complete and submit the Cost Report by the due date may result in a reduction or forfeiture of the payment rate, as provided in Section 49.45(13), Wis. Stats. and explained in Section 100 of these instructions.

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## SECTION 100 – GENERAL INSTRUCTIONS

1. **REPORTING PERIOD:** Revenues, expenses and the related statistical data are to be reported for the facility's twelve-month fiscal year which ended in calendar year 2003.

**FISCAL YEAR:** The facility's fiscal year is the year the nursing home provider uses for financial reporting purposes and for tax reporting purposes.

2. **DUE DATES:** One copy of the completed cost report must be submitted to the facility's Medicaid District Auditor within three months after the end of the cost reporting period. Along with the completed cost report, the facility must include a copy of the final adjusted trail balance for the reporting period and a reconciliation of the trail balance (reconciliation workpapers).

Facilities that have had a certified audit for the cost reporting period will be permitted an additional 30 days from the due date specified above to file the cost report. A copy of the audit report must be submitted with the cost report.

A provider who fails to complete and submit the cost report by the above dates shall have their Medicaid reimbursement rates as provided in Section 49.45(13)(a), Wis. Stats.:

- for the first month delinquent, 25% withheld,
- for the second month delinquent, 50% withheld,
- for the third month delinquent, 75% withheld,
- for the fourth month and thereafter, 100% withheld.

The reimbursement rate shall be restored to 100% of the reimbursement rate upon receipt of the completed cost report and required supporting documentation.

A provider who fails to complete and submit the cost report or financial report by the above dates may be subject to a daily forfeiture as provided in Section 49.45(13)(b), Wis. Stats.

3. **GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP):** Revenues and expenses should be reported according to generally accepted accounting principles except for items which the report instructions require some other accounting or reporting method. At the facility's option, the instructions may allow a deviation from GAAP for certain items. The reporting of other items may also deviate from GAAP if such deviation will not significantly or materially misstate revenues and expenses.
4. **ACCRUAL METHOD:** Revenue and expenses are to be reported on the accrual method of accounting except for government facilities which may use the cash method of accounting. If the facility's records are maintained on a cash basis, supplemental worksheets must be prepared to adjust revenues and expenses for all significant accruals. These adjustments do not need to be posted to the general ledger but the supplemental worksheets must be retained by the facility for the retention period of the cost report (see Section 300).

The following are some items which should be adjusted for accruals for the cost reporting period:

- **Revenues:** Accrue all significant realized revenues. Adjust Medicaid revenue for known retroactive rate adjustments for the reporting period.
- **Accounts Payable:** Significant accounts payable at the end of the cost reporting period should be included in expenses. Accounts payable at the beginning of the period should be eliminated from expenses.
- **Payroll Expenses and Hours:** Accrue productive wage expense and the related hours worked. Non-productive (paid time off) wage expense and related hours must be reported on the actual basis. Accruals for paid time off are not allowable (see Section 506 for instructions).
- **Interest and Debt Principal:** Adjust the principal due on mortgages, bonds and notes payable and accrue their related interest expense to the reporting period.

- Depreciation: Depreciation should be calculated using the straight-line method of depreciation and a reasonable useful life (see Schedule 34).
- Inventories: Supply expenses should be adjusted for significant changes in the inventories. Each facility should consider its purchasing and usage practices to determine if an inventory adjustment would significantly affect expenses. An inventory adjustment should be made for supply items purchased and stored in bulk quantities.

**ACCRUAL METHOD FOR FACILITIES UNDER 30 BEDS:** Facilities with under 30 licensed beds during the cost reporting period which are not operated by a chain organization do not need to accrue revenues and vendor accounts payable. If elected, such a convention must be consistently applied in future years' cost reports. The Department of Health and Family Services (the Department) retains the right to adjust for such accruals if they are determined to be irregular and significant.

5. **ACCOUNTING REFERENCE:** The cost report consists of standardized reporting schedules that include policies and instructions for cost reporting in addition to the detailed instructions in this document.
6. **SPECIFIC SCHEDULE INSTRUCTIONS:** Instructions specific to a schedule may be included in the cost report or in this instructional packet.
7. **CHECK SCHEDULES:** Check to see that the cost report has all schedules listed in Section 200 of this document. Unless authorized by the Department, substitutions and revisions are not acceptable. All schedules must be completed and returned.
8. **PROVIDER NUMBER:** Enter the facility's Medicaid provider number on the line provided on the top right corner of each schedule. This will allow for identification of the facility's cost report if any schedule is separated.
9. **ROUNDING TO WHOLE NUMBERS:** Round all gross dollar and hour amounts to whole numbers. The rounding error is both minuscule and acceptable. For example, \$3,827.49 should be rounded to \$3827 and 782.50 hours should be rounded to 783 hours.
10. **ADDITIONAL SHEETS:** If additional sheets of paper are used, they should be clearly labeled and securely fastened to the cost report. Cross-reference the cost report schedule to the additional sheet(s).
11. **LEGIBILITY:** The report does not have to be typed but hand writing should be legible and must be in ink. Photocopies must be dark and legible.
12. **PURCHASE DISCOUNTS, ALLOWANCES, REFUNDS AND REBATES:** These are not to be considered a form of income. Rather, they should be used to reduce the specific costs to which they apply in the accounting period in which the purchase occurs.  
  
If the purchase occurs in one cost reporting period but the related allowance, refund or rebate is not received until the subsequent period, an accrual in the initial period should be made if the amount is significant to reduce the cost accordingly. However, if this cannot be readily accomplished, such amounts must be used to reduce comparable expenses for the cost reporting period in which they are received.
13. **SIGNATURES:** The cost report (Schedule 1) must be signed by either 1) an officer, sole proprietor or partner or 2) the administrator. In addition, the cost report must be signed and dated by the preparer if it was prepared by a party other than the nursing home owner or nursing home employee.

14. **DISTINCT PART FACILITIES:** A facility operating in conjunction with a distinct part ICF-MR provider or with a distinct part IMD provider should submit a combined cost report for the entire operation. Note on Schedule 2 that a combined cost report has been filed. For cost report identification purposes, used the Medicaid provider number assigned to the original NF certified facility.HCF-1812A Page 4
15. **NURSE AIDE TRAINING AND COMPETENCY EVALUATION PROGRAM (NATCEP):** The Department is required to separately track and accumulate expenditures for NATCEP which should be reported on Schedule 27, column A (see Section 1000).
16. **NURSING HOME CHAIN HOME OFFICE:** Any organization that owns or operates two or more health care facilities including at least one nursing home is considered a chain organization. Home office cost reports for chains are required only if expenses are allocated to the nursing home and reported for Medicaid reimbursement.
17. **READ INSTRUCTIONS:** The instructions, guidelines and policies in this document pertain to many schedules in the cost report and should be read thoroughly prior to completing the cost report. Additional instructions may be included on each schedule.

## SECTION 200 – LISTING OF COST REPORT SCHEDULES

| Schedule Title  | No. | Pg. | Schedule Title  | No.   | Pg. |
|---|-----|-----|---|-------|-----|
| Facility and preparer information and certification . .   | 1   | 1   | Other non-salary administrative service expenses .      | 26Att | 29  |
| Provider's notes . . . . .                                | 2   | 2   | Home office and county central service expenses .       | 26A   | 30  |
| General information . . . . .                             | 3   | 3   | Allocation of administrative service expenses . . . . . | 26B   | 31  |
| Major revenue generating activities . . . . .             | 4   | 4   | Other cost centers . . . . .                            | 27    | 32  |
| Building square footage . . . . .                         | 5   | 5   | Employee fringe benefit expenses . . . . .              | 28    | 33  |
| Total patient days . . . . .                              | 6   | 6   | Heating fuel and utility expenses . . . . .             | 29    | 34  |
| Patient days in distinct part ICF-MR facilities . . . . . | 7   | 7   | Interest expenses on working capital loans . . . . .    | 30    | 35  |
| Total patient days by month . . . . .                     | 8   | 7   | Insurance expenses . . . . .                            | 31    | 35  |
| Hospice patient days . . . . .                            | 9A  | 7   | Amortization of deferred expenses . . . . .             | 32    | 35  |
| Ventilator dependent patient days . . . . .               | 9B  | 7   | Interest expenses on plant asset loans . . . . .        | 33    | 36  |
| Balance sheet . . . . .                                   | 10  | 8   | Depreciation expenses . . . . .                         | 34    | 37  |
| Summary of changes in owner's equity . . . . .            | 10A | 9   | Expenses on operating and non-capitalized leases        | 35    | 38  |
| Summary of revenues and expenses . . . . .                | 11  | 10  | Expenses on capitalized leases . . . . .                | 36    | 39  |
| Summary of total expenses . . . . .                       | 12  | 11  | Property tax expenses . . . . .                         | 37    | 40  |
| Summary of salary and wage expenses . . . . .             | 13  | 12  | Income tax expenses . . . . .                           | 38    | 41  |
| Daily patient service revenues . . . . .                  | 14  | 13  | Other non-salary expenses . . . . .                     | 39    | 41  |
| Special service revenues . . . . .                        | 15  | 14  | Allocation of property expenses . . . . .               | 40    | 42  |
| Other revenues . . . . .                                  | 16  | 15  | Accounting and reporting policies . . . . .             | 41    | 43  |
| Other revenues . . . . .                                  | 17  | 16  | Transactions with related parties and organizations     | 42    | 44  |
| Other revenues . . . . .                                  | 18  | 17  | Expenses not related to patient care . . . . .          | 43    | 45  |
| Deductions from revenues . . . . .                        | 19  | 18  | Legal fees . . . . .                                    | 43A   | 46  |
| Daily patient service expenses . . . . .                  | 20  | 19  | Compensation to key personnel . . . . .                 | 44    | 47  |
| Special service expenses . . . . .                        | 21  | 20  | Distribution of compensation expenses . . . . .         | 45    | 48  |
| Special service expenses . . . . .                        | 22  | 21  | Employee unique fringe benefits . . . . .               | 46    | 49  |
| Special service expenses . . . . .                        | 23  | 22  | Administrative services to others . . . . .             | 47    | 50  |
| Other types of special service expenses . . . . .         | 24  | 23  | Out-of-state travel expenses . . . . .                  | 48    | 50  |
| Other types of special service expenses . . . . .         | 24A | 24  | Percentage of ownership . . . . .                       | 49    | 51  |
| General service expenses . . . . .                        | 25  | 25  | Interest in other Medicaid providers . . . . .          | 50    | 51  |
| Allocation of dietary and plant expenses . . . . .        | 25A | 26  | Medical supply revenues from Medicare Part B . . .      | 51    | 52  |
| Allocation of housekeeping, laundry, transportation       | 25B | 27  | Miscellaneous Medicaid non-rate revenues . . . . .      | 52    | 53  |
| Administrative service expenses . . . . .                 | 26  | 28  | Private room incentives . . . . .                       | 53    | 54  |

## **SECTION 300 – FIVE YEAR RECORD RETENTION**

Providers must retain all financial and statistical records and worksheets to support their cost report and supplemental information for a period of five years per Section HFS 105.02, Wis. Admin. Code. Records and worksheets must be accurate and in sufficient detail to substantiate the reported financial and statistical data. These records must be available to the Department in a reasonable time from the date of request and at a location within Wisconsin unless alternative arrangements are made with the Department. Failure to adequately support reported amounts may result in retroactive reductions of payment rates and recoveries of monies paid for services.

## **SECTION 400 – RELATED PARTIES AND RELATED ORGANIZATIONS**

In several cost report schedules, the synonymous terms, “related party” and “related organization” are used. Expenses resulting from related party transactions must be identified in Schedule 42.

### **401 BASIC PRINCIPLE**

A nursing home provider may incur expenses for services, facilities and supplies furnished by parties related to the provider by common ownership or control. In lieu of such expenses incurred by the provider, allowable expenses for reimbursement may include the expenses incurred by the related party for the furnished items. Allowable expenses must not exceed the lesser of:

- The expense incurred by the related party for the services, facilities and supplies furnished to the nursing home, or
- The price of comparable services, facilities or supplies that could be purchased elsewhere.

The purpose of this principle is to avoid the payment of a profit factor to the provider through the related party and to avoid the payment of artificially inflated expenses which may be generated from less than “arm’s length” bargaining.

### **402 REPORTING EXPENSES FROM RELATED PARTY TRANSACTIONS**

The expenses incurred by the nursing home provider from transactions with related parties may be included in the expense reporting schedules (Schedules 20 through 41). Such expenses should then be identified on Schedule 42 along with the expenses incurred by the related supplying organization for the furnished items.

A related party’s total expenses applicable to a supplied item is only required to be reported on Schedule 42; however, a provider may attach an addendum detailing the supplied items by the type of expense if they choose. For example, a related party’s expenses for catered dietary services it furnished to the provider may be itemized by salaries and hours (productive and non-productive), fringe benefits, supplies, utilities, depreciation, interest, etc. These detailed expenses may then be combined with the like expenses of the provider for the purposes of reimbursement rate calculation.

The provider must make adequate documentation to support expenses incurred by the related party available to the Department upon request. This may include access to the related party’s books and records. Such documentation must include an identification of the party’s total costs and the allocation of direct and indirect costs to the nursing home provider and to other entities served.

### **403 DEFINITIONS**

**RELATED PARTY OR RELATED ORGANIZATION:** An individual or organization related to a nursing home by common ownership or control.

**RELATED TO THE NURSING HOME:** The nursing home, to a significant extent, associated or affiliated with, has control of, or is controlled by the organization furnishing the services, facilities or supplies.

**COMMON OWNERSHIP:** An individual or individuals possessing significant ownership or equity in the nursing home and in the institution of organization serving the nursing home.

**CONTROL:** An individual or organization having the power, directly or indirectly, to significantly influence or direct the actions or policies of an organization or institution.

**IMMEDIATE FAMILY RELATIONSHIPS:** Husband, wife, natural parent, child, sibling, adopted child, adoptive parent, step-parent, step-child, step-sibling, father-in-law, mother-in-law, sister-in-law, brother-in-law, son-in-law, daughter-in-law, grandparent, or grandchild.

#### 404 DETERMINATION OF RELATEDNESS

In determining whether a nursing home is related to a supplying party, the tests of common ownership and control are to be applied separately. If the elements of common ownership or control are not present in both organizations, the organizations are deemed to not be related to each other. The existence of an immediate family relationship will create a presumption of relatedness which may be rebutted.

**RELATED BY COMMON OWNERSHIP:** A determination of common ownership (whether an individual or organization possesses significant ownership or equity in the nursing home and the supplying organization) should be made on the basis of the facts and circumstances in each case. This principle applies whether the nursing home or the supplying organization is a sole proprietorship, partnership, corporation, trust, estate, or any other form of business organization, proprietary or nonprofit. In the case of a nonprofit organization, ownership or equity interest will be determined by referencing the interest in the assets of the organization (for example, a reversionary interest provided for in the articles of incorporation of a nonprofit corporation).

**RELATED BY CONTROL:** The term control includes any kind of control which is exercisable, regardless of legal enforceability. It is the reality of the control which is decisive, not its form or mode of exercise. The facts and circumstances in each case must be examined to ascertain whether legal or effective control does exist. Since a determination reached in a specific case represents a conclusion based on the entire body of facts and circumstances involved, such determination should not be used as a precedent in other cases unless the facts and circumstances are substantially the same.

#### 405 EXCEPTION

An exception is provided to the related party general rule which is intended to cover situations in which large quantities of goods and services are supplied to the general public by the related party and only incidentally furnished to a nursing home. The exception applies if the provider demonstrates to the satisfaction of the Department that the following criteria are met.

- The supplying party is a bona fide separate organization.
- A substantial part of the supplying party's business activity as engaged with the nursing home is transacted with other organizations not related to the nursing home and the supplier by common ownership or control and there is an open, competitive market for the type of services, supplies or facilities furnished by the party.
- The services, supplies or facilities are those which commonly are obtained by nursing homes from other organizations and are not a basic element of patient care ordinarily furnished directly to patients in nursing home operations.
- The charge to the nursing home is in line with the charge for such services, supplies or facilities in the open, competitive market, and not more than the charge made by the party, under comparable circumstances, to other customers for such services, supplies or facilities.

If all of the above conditions are met, the charge by the related supplier to the nursing home provider for such services, supplies or facilities shall be an allowed expense for the purposes of reimbursement rate calculation. Such expenses incurred by the nursing home should be reported on Schedule 42 of the cost report. Indicate on a separate sheet which expenses from the related party meet the above conditions and how each condition is met. The expense incurred by the related party for the supplied item does not need to be reported on Schedule 42.



#### 406 EXAMPLES OF RELATED PARTIES AND ORGANIZATIONS

The following examples illustrate the general application of the basic principal of common ownership and control but are not intended to prescribe fixed percentages for determining when significant ownership in or control of an organization exists for use in all cases. Such determinations are made on the basis of the facts and circumstances in each case.

**EXAMPLE 1:** Mr. B owns 60% interest in the nursing home and 55% interest in an organization which supplies the home. The nursing home and the supplying organization are considered to be related by common ownership since Mr. B possesses a significant ownership in both organizations.

**EXAMPLE 2:** Mr. X owns 70% interest in the nursing home and 40% interest in the supplying organization. The remaining 60% interest in the supplying organization is owned in equal parts by 20 individuals unrelated to Mr. X. Unless the nursing home can demonstrate to the satisfaction of the Department that Mr. X's ownership interest in the supplying organization is not significant, the nursing home and the supplying organization are considered to be related by common ownership.

**EXAMPLE 3:** Ms. A is the administrator of a provider but does not have an ownership interest in the provider. She is also the president and owner of a supplying organization that furnishes various therapeutic services primarily to the provider. Under the circumstances described, it is presumed that Ms. A has the power to influence or direct both the provider and the supplying organization; therefore, the nursing home and the supplying organization are considered to be related by common control.

**EXAMPLE 4:** Mr. C owns 60% interest in the nursing home and Mr. C's two sons and wife together own 100% of the organization supplying the nursing home. Under the circumstances described, it is presumed that Mr. A has the power to influence or direct both the provider and the supplying organization; therefore, the nursing home and the supplying organization are considered to be related by common control.

**EXAMPLE 5:** A construction company builds a nursing home facility and leases it to an operating company which becomes a provider. Ms. M owns 100% interest in the construction company and 35% interest in the nursing home operation. Mr. N, a key employee of the construction company, owns 20% interest in the nursing home operation. Under the circumstances described, it will be presumed that Ms. M, as an employer or Mr. N in the construction company, can influence Mr. N's decisions relative to the operation of the nursing home; therefore, the construction company and the nursing home provider are considered to be related by common control.

**EXAMPLE 6:** Mr. H owns 45% interest in Corporation X, the provider organization, with the remaining 55% interest owned by Corporation Y, the supplying organization. Mr. H owns 100% interest in Corporation Y. As a result, Mr. H controls 100% of Corporation X (his own 45% direct interest and the 55% indirect interest owned by Corporation Y). Mr. H has complete control over both the provider and the supplying organization; therefore, the provider and supplying organizations are considered to be related by common control.

## **SECTION 500 – REPORTING OF SALARY AND WAGE EXPENSE**

### **501 SALARY ACCRUALS**

Salary and wage expenses are their related hours must be accrued to the cost reporting period except for government facilities which may use the cash method of accounting. Government facilities are encouraged to use the accrual method for salaries and wages; however, reporting on the basis of “earned” time off is not permitted (see Section 506).

A simple and acceptable technique can be used to accrue salary expenses and hours. Salary expenses for the beginning and ending payroll periods of the cost report period can be prorated to the cost report period. The prorated cost can be based on the number of payroll days in the cost report period.

The following example is for the July 1998 through June 1999 cost reporting period. For a 14-day payroll period ending July 4, 1998, 4/14 of the salary expenses and hours would be included in the cost report with 10/14 of the expenses and hours excluded. For the 14-day payroll period ending July 3, 1999, 11/14 of the salary expenses and hours would be included in the cost report and 3/14 of the expenses and hours would be excluded.

### **502 STANDARD REPORTING INSTRUCTIONS**

Salary and wage expenses and hours are reported on Schedules 20 through 27 of the cost report.

#### **LINE 1: Expense for Productive Hours Worked**

Report only the accrued expenses of salaries and wages for productive hours worked by employees. Do not include the expenses for contracted or purchased services. The expenses for the premium wage rate paid for overtime and holiday hours worked should be reported on line 1.

#### **LINE 2: Productive Hours Worked**

Report the number of accrued productive worked by employees which are related to the report expenses. Overtime hours worked should be reported as 1 hour for each hour worked. Make sure to include hours worked for salaried employees.

#### **LINE 3: Expense for Non-Productive Hours**

Report the accrued expense of salaries and wages for non-productive hours or paid time off of employees; however, do not accrue expenses for earned time off that was not taken during the cost report period.

#### **LINE 4: Non-Productive Hours**

Report the number of non-productive hours or paid time off hours which are related to the reported non-productive expenses.

### **503 SPECIAL PAYMENTS TO EMPLOYEES**

Some providers make payments to employees which are not related to any specific number of hours paid. For example, a regular, flat allowance for uniforms, an annual holiday bonus or annual longevity bonus. The expenses for these special payments should be reported with employee fringe benefit expenses on Schedule 28, Line 16. Do not report these expenses on Line 3 of Schedules 20 through 27.

#### 504 EXPENSES FOR NON-PRODUCTIVE HOURS

Payments are traditionally made to employees for time off or non-productive time. Non-productive pay can include paid vacation, holiday leave, sick leave and other paid time off such as training. Expenses for on-premises paid time off, such as breaks and paid meal time, is to be reported as productive time and wages.

The reported expenses for non-productive hours must be supported by leave time records, inservice training rosters, payroll records and any worksheets developed to calculate the reported expenses. Records must be in sufficient detail to identify paid time off and its related wages and hours by employee within each cost center.

#### 505 ESTIMATES OF PAID TIME OFF EXPENSES

Routine payroll processing in some facilities may not generate detail for paid time off wages by employee within each cost center. For paid time off which is not routinely and systematically given to all employees (vacation, holiday, sick leave, inservice training, etc.), estimates will be accepted if:

- The detail specified in 504 is not available and cannot be readily developed.
- The facility does maintain records of the amount of paid time off taken by each employee.
- The estimation calculation utilizes these records and adequately determines non-productive salary expense and the net hours worked in each cost center.
- Detailed and verifiable worksheets and other records are available for on-site audit.

Hours worked must exclude estimated paid time off hours.

#### 506 ACCRUALS OF PAID TIME OFF

The Department will not recognize the accruals of expenses for paid time off. It will recognize only the cost paid time off which has been taken during the cost reporting period. Reporting on the basis of earned time off is not permitted.

Implementation of the cash basis of reporting for paid time-off only affects and prohibits reporting on the basis of earned time-off but does not affect normal beginning and ending accruals. For example, if an employee actually takes and is paid for vacation which overlaps two cost reporting periods, that vacation should still be accrued to each cost report period as appropriate even if the total payment is made in the later cost reporting period.

## **SECTION 600 – EXPENSES RELATED AND NOT RELATED TO PATIENT CARE**

This section relates to Schedule 43 of the cost report.

### **601 EXPENSES RELATED TO PATIENT CARE**

Only expenses incurred by the nursing home related to nursing home patient care are allowable for payment. These include all necessary and proper expenses which are appropriate in developing and maintaining the operation of nursing home facilities and services. Necessary and proper expenses are usually expenses incurred by a reasonably prudent buyer which are common and accepted occurrences in the operation of a nursing home.

**START-UP COSTS:** Start-up costs include expenses which are readily attributed to and necessary for the development of patient care services and which were incurred during the period of preparation, prior to providing the services. They are allowed to be capitalized as deferred expenses and amortized over operating expenses over a benefiting number of years. Such expenses may include administrative and nursing salaries, utilities, taxes, insurance, interest, employee training and other allowable costs incident to preparing for providing services. These do not include organization costs and costs more appropriately capitalized as plant assets.

Start-up costs are incurred from the time preparation begins on a newly constructed, expanded or converted building, wing, floor or unit until the first resident is admitted or, for support service areas, until the areas are used for the intended purpose. If a provider intends to prepare all portions of the facility at the same time, start-up costs should be charged to a single deferred expense account and amortized when the first resident is admitted. If a provider intends to prepare portions of the facility on a piecemeal basis (by wing, floor, etc.), start-up costs should be capitalized and amortized separately for each portion of the facility prepared during different time periods.

### **602 EXPENSES NOT RELATED TO PATIENT CARE**

Expenses not related to patient care are expenses which are not appropriate or necessary and proper in developing and maintaining patient care services and facilities. Such expenses are not reimbursable under the Wisconsin Medicaid program.

### **603 SPECIFIC ITEMS NOT RELATED TO PATIENT CARE**

The following is a partial list of items which will generally be disallowed as not related to patient care. This list does not include all types of expenses which could be considered as not related to patient care and, therefore, not reimbursable.

1. **PROMOTIONAL EXPENSES:** Includes promotional advertising such as brochures primarily for increasing utilization and soliciting residents and advertising for stock sale and sale of plant assets. Ads for help and reasonable ads and brochures for informing the public of services (such as telephone directory advertising) may be allowed as related to patient care.
2. **GIFTS AND FLOWERS:** Includes expenses for gifts and flowers for residents, former residents, their family and friends, and vendors.
3. **PERSONAL EXPENSES OF OWNERS:** Includes personal expenses of owners or their immediate family relations. Such expenses may be considered compensation to the individual or a unique fringe benefit to the individual on schedule 46.

4. **ENTERTAINMENT FOR NON-RESIDENTS:** Includes expenses for entertaining non-residents with meals, lodging, parties or other entertainment. Entertainment for residents or employee parties may be considered an allowable expense.
5. **TELEPHONE, TELEVISION OR RADIO IN RESIDENT ROOMS:** Includes direct expenses for telephones, televisions and radios located in resident rooms whether the residents are or are not charged for the items, which also includes the cost of cable and satellite services.
6. **CONTRIBUTIONS:** Includes contributions or donations made by the provider to organizations or individuals.
7. **FINES AND PENALTIES:** Includes, but is not limited to, fines and penalties such as non-payment of payroll taxes, violations of state nursing home licensure regulations. Charges based on a reasonable percent per annum rate applied to a defaulted payment balance may be considered an allowable expense and are most appropriately assigned to interest expenses on operating working capital loans.
8. **INTEREST EXPENSES ON NON-CARE WORKING CAPITAL LOANS:** Includes interest expenses on working capital loans which are not used or necessary for operating and providing nursing home services.
9. **INTEREST EXPENSES ON NON-CARE PLANT ASSET LOANS:** Includes interest expenses on plant asset loans or portions of such loans which were not necessary for the acquisition or financing of plant assets used in providing nursing home services and increased interest expenses on unnecessary refinancing of plant asset loans.
10. **NON-CARE RELATED MEMBERSHIP FEES:** Includes expenses for membership in social, fraternal and other organizations whose activities are generally unrelated to nursing home patient care or business activities. Such expenses may be considered compensation to the individual or a unique fringe benefit to the individual on schedule 46.
11. **TRAINING PROGRAMS FOR NON-EMPLOYEES:** Includes expenses for training any individual not employed or subsequently employed by the provider.
12. **LEGAL AND OTHER PROFESSIONAL FEES:** Includes legal and other professional fees incurred by the provider under the following circumstances and not related to patient care:
  - The provider, or organization of which the provider is a member, incurs the fees for the prosecution or defense or potential prosecution or potential defense of any administrative appeal or judicial suit which results from a reimbursement action taken by a state or federal agency administering Medicaid or Title XVIII programs.
  - The provider, or organization of which the provider is a member, incurs the fees in an administrative appeal or judicial suite which results from any action taken by the state agency that administers licensing and certification requirements unless the administrative law judge in the administrative appeal awards fees in a motion brought under Section 1.2455 of the Methods of Implementation.
  - The provider incurs the fees defending an owner or an employee in a personal matter or criminal investigation or prosecution.
  - The provider incurs the fees in any other remedial process pursued prior to the filing of an appeal under Chapters 50 or 227, Wisconsin Statutes, or a judicial suit.
  - Other fees not related to patient care.
13. **LIFE INSURANCE FOR OWNER OR KEY PERSONNEL:** Includes the expenses for any life insurance policy in which the facility is named beneficiary. Premiums for life insurance required by a mortgage may be allowed for declining term or term life insurance, or the premiums less the increase in cash surrender value. The lender must be designated beneficiary with proceeds applied to the debt balance. The

for such insurance which are substantially in excess of the remaining debt principle is not allowed.

14. **TAXES:** Includes taxes levied on the provider or related parties under the following circumstances:

- Federal, state and local income taxes, excess profit taxes, and franchise taxes based on income,
- Taxes for which exemptions are available to the nursing home,
- Taxes on excess property, and
- Taxes levied against residents but paid by the nursing home.

Special assessments on property which represent capital improvements such as sewers, water mains and pavements should be capitalized in land or plant asset accounts and not expensed in the year incurred.

15. **FUND RAISING EXPENSES:** Includes direct expenses for fund raising campaigns or activities. Shared and indirect expenses for significant fund raising activities should be allocated according to Section 700.

16. **EXCESS PROPERTY:** Includes, but is not limited to, expenses related to property in excess of what is reasonably needed to provide patient care such as property tax, interest, depreciation and insurance. Expenses for property reasonably needed for standby purposes may be allowed as related to patient care.

17. **GIFT, FLOWER AND COFFEE SHOPS AND SNACK COUNTERS:** Includes direct expenses for the operation of gift, flower and coffee shops and snack counters. Indirect expenses for significant operations should be allocated to these operations according to Section 700.

18. **STOCKHOLDER SERVICING EXPENSES:** Includes expenses incurred primarily for the benefit of stockholders or other investors related to the equity interest of such parties and not to patient care such as expenses for the preparation of corporate reports or stockholders' meetings.

19. **REORGANIZATION EXPENSES:** Includes expenses connected with the reorganization of the form of the business or of a corporation which are not related to patient care.

20. **PURCHASE OF CORPORATE STOCK:** Includes, but is not limited to, expenses incurred which relate to the purchase of the capital stock of a nursing home corporation such as legal fees and interest expenses on loans to acquire stocks. The write-up of the historical cost of corporate plant assets based on the purchase price of the corporation's capital stock and the related depreciation of such a write-up is also included. These expenses may or may not be allowed as related to patient care.

Whether such expenses are allowed depends on the circumstances of each situation and requires a detailed analysis by the Department. These expenses should be identified and listed in detail on a separate sheet attached to the cost report. Purchasers of capital stock of a nursing home are advised to contact the Department regarding to discuss whether the expenses will be allowed for reimbursement before completing the transaction.

21. **GOODWILL:** Includes expenses related to the acquisition of goodwill and interest expenses related to the acquisition of goodwill.. Expenses for goodwill incurred during the acquisition of the physical plant and/or the operation must be separately identified and valued along with other acquired assets in accordance with GAAP. Goodwill, including that which has been generated internally (for example, from a reorganization of the provider), is not related to patient care.

22. **ABANDONED PLANNING EXPENSES:** Includes expenses incurred for planning projects related to or not related to patient care which are abandoned or discontinued. Such expenses do not generally result in the development or acquisition of depreciable assets. Abandoned planning expenses may be associated with a facility's home office, for example, when a home office planning department allocates planning costs to the nursing home. Allocated costs associated with abandoned projects will be disallowed.

## 604 REPORTING EXPENSES NOT RELATED TO PATIENT CARE

**REPORTING LOCATION:** To the extent possible, all known expenses which are not related to patient care are to be identified and listed on schedule 43 of the cost report.

**ERRORS AND OMISSIONS:** As a minimum tolerance level, errors or omissions in reporting all non-patient care related expenses totaling up to \$500 or \$5 per licensed bed per year (whichever is greater) will be considered not significant by the Department. Any tolerance for additional admissions or errors will depend on the circumstances.

**QUESTIONABLE EXPENSES:** When the provider is doubtful whether an expense is allowable for reimbursement, the provider may attach a sheet to the cost report identifying the expense and requesting the Department review it. Relevant details and arguments for the review should also be presented.

## **SECTION 700 – ALLOCATION OF SHARED AND INDIRECT EXPENSES**

### **701 GENERAL**

Many Medicaid nursing home providers are operated in conjunction with other major revenue-generating activities within the nursing home or with non-nursing home activities. These activities should be identified on Schedule 4.

**DIRECT EXPENSES:** A multi-purpose operation will generally incur direct expenses which are readily identifiable with and ascribable to the nursing home and each revenue activity such as expenses for salaries, materials, services and physical plant space which can be identified with each activity.

**SHARED SERVICES:** The nursing home and other revenue-generating activities may share the services of centralized functions or unassigned indirect expenses such as administration, plant operation and maintenance, dietary services, housekeeping services and laundry services. Unassigned indirect expenses may include utilities, depreciation, interest, property tax and employee fringe benefit expenses. These expenses must be appropriately allocated between the nursing home provider and the other revenue-generating activities using statistics which reasonably and fairly reflect the benefits each activity derives from the shared services. For example, dietary expenses should be allocated on the basis of meals served while maintenance expenses should be allocated on the basis of building square footage used by the nursing home and the other revenue-generating activities. The statistics to be used are specified on the cost report allocation schedules.

### **702 COST REPORTING**

The cost report should include all expenses which apply to the Medicaid nursing home provider with direct expenses of the major revenue-generating activities separated from the direct nursing home expenses. Shared service expenses and unassigned indirect expenses must be allocated between the nursing home and the other revenue-generating activities. Two alternatives are available for cost reporting:

- All expenses of the operation may be reported on the cost report. Direct expenses which cannot be assigned to the nursing home should be reported on Schedule 27 and expenses for shared services and indirect expenses should be allocated on the schedules provided in the cost report.
- The cost report may include only the direct expenses assigned to the nursing home and the portion of the expenses for shared services and indirect expenses allocated to the nursing home.

The nursing home must submit allocation schedules with this cost report which disclose how shared and indirect expenses were allocated between the nursing home and the other revenue-generating activities. The allocation schedules must:

- Describe the allocation technique used,
- Describe the type of allocation basis and amounts used for allocating each shared service and indirect expense, and
- Identify the percentages of each cost centers' expenses which were allocated to the nursing home provider.

### **703 HOSPITAL-BASED FACILITIES**

A cost allocation system includes two basic elements: the type of basis on which expenses are allocated (such as meals for dietary expenses and square footage for maintenance expenses) and the method of cost allocation (such as the step-down method required by Medicare for many hospitals).



**TYPE OF ALLOCATION BASIS:** For the cost report, a hospital-based facility should generally use the same basis for allocating expenses to the nursing home as it uses for its Medicare cost report. Amounts used for any allocation basis, especially square footage, must allocate a reasonable and fair portion of expenses to the nursing home.

**METHOD OF COST ALLOCATION:** A hospital-based facility may, but is not required to, use the Medicare step-down method for allocating expenses in the cost report but can use the allocation schedules provided in the report or use a similar method which reasonably and fairly allocates expenses to the nursing home.

Freestanding nursing homes operated in conjunction with a hospital may not use the step-down method. Other hospital-based facilities may continue to use the step-down allocation method if the resulting expenses allocated to the nursing home can be reported by line item in each cost center. The expenses of several cost centers should not be combined and reported as overhead in each cost center, as results from using Medicare's step-down schedule. In the cost report, the expenses for each function (dietary, maintenance, administration, etc.) must be reported in that function's cost center or the unassigned expense's line item.

Two techniques are described here to adapt the Medicare step-down method to the nursing home cost report requirements. Both of these techniques are complex; therefore, hospital-based facilities are not required to use the step-down method.

In the first technique, the step-down is "backed up" to determine the percentage of each cost center which is allocated to the nursing home. These percentages are applied to the gross line item expenses of the respective cost centers to determine the amount allocated to the nursing home.

In the second technique, each cost center column in the Medicare step-down schedule is split into additional columns to identify the cost center from which expenses were allocated. Ultimately, the amount of each cost center which has been stepped-down to the nursing home can be separate identified and the percentage of each cost center which has been allocated to the nursing home can be determined. This allocation percentage for each cost center is applied to each line item of the cost center to result in the amount which should be reported in the cost report.

#### 704 INDIVIDUAL SCHEDULE INSTRUCTIONS AND EXAMPLES OF ALLOCATION SCHEDULES

Instructions and examples of allocation schedules for individual cost report schedules have been attached to the end of this instructional document.

## **SECTION 800 – DAILY PATIENT SERVICE EXPENSES**

The following medical and personal comfort supplies should be included in each major group of daily patient service supplies on Schedule 20. This is only a partial list and items similar to those listed should be included in their respective groups. Dietary supplies should be reported on Schedule 25.

### **801 DIETARY SUPPLIES**

Artificial sweeteners  
Diet supplements (Metrecal, Ensure, Vivonex and related products)  
Salt substitutes (Neocurtasal and related products)  
Sugar substitutes

### **802 INCONTINENCE SUPPLIES**

Catheters (foley and condom), catheter sets and component parts (tubing urine collection apparatus, bags)  
Diapers (disposable and reusable) including purchased diaper services  
Underpads (disposable and reusable)

### **803 PERSONAL COMFORT ITEMS AND MEDICAL SUPPLIES AND EQUIPMENT**

Alcohol (rubbing, antiseptics and swabs)  
Analgesic rubs (Ben-Gay, Infrarub, Vicks Vaporub, etc.)  
Antiseptics (Betadine, Iodine, Mercurochrome, Merthiolate and similar products)  
Baby, comfort and foot powders  
Body lotions, skin lubricants and moisturizers (olive oil, Nivea oil and cream, Lubath, Alpha-Keri, etc.)  
Blood glucose testing supplies including strips  
Cotton-tipped applicators and cotton balls  
Deodorants  
Denture products including adhesives and cleaning products  
Disposable tissues (Kleenex, etc.)  
Dressings (adhesive pads, abdominal pads, gauze pads and rolls, eye pads, sanitary pads, stockinette, Opsite and related items)  
Enema administration apparatus  
Gloves (latex and vinyl)  
Hydrogen Peroxide  
Lemon or glycerin swabs  
Lubricating jellies (Vaseline, KY Jelly, etc.)  
Oral hygiene products (dental floss, toothpaste, toothbrushes, Waterpik)  
Phosphate enemas  
Plastic or adhesive bandages (Band-Aid, etc.)  
Shampoos except specialized shampoos such as Selsun and similar products  
Soaps (antiseptic and non-antiseptic)  
Straws (paper and plastic)  
Syringes, needles and lancets (disposable and reusable)  
Tapes, all types  
Tincture of Benzoin  
Tongue depressors  
Tracheotomy care sets and suction catheters  
Tube feeding sets and component parts

#### 804 ALL NON-EXPENDABLE, REUSABLE MATERIALS

All non-expendable, reusable materials (bedpans, thermometers, linens, ace bandages, rubber pants, etc.)

Abdominal binder  
Abdominal support  
Adaptive dressing equipment  
Adaptive eating utensils  
Adaptive hygiene equipment  
Alternating pressure pumps  
Apnea monitor  
Aquaped (K pad)  
Bath bench  
Bath lifts  
Bath sling  
Bed (electric or hospital)  
Bed rails  
Blood glucose monitor  
Commodes  
Crib (hospital type or enclosed top)  
Cushions (wheelchair, all types)  
Elbow protectors  
Elevated toilet seats  
Enuretic alarm  
Exercise equipment (exercise bicycles, exercise mats, etc.)  
Floor stand (weights, trapeze)  
Flotation pads or cushions (Roho or similar)  
Food pumps  
Foot boards (model)  
Foot protectors  
Geriatric chairs  
Gait belts  
Hand cones  
Hand splints (soft)  
Hosiery (support, thromboembolytic disease stockings)  
Hydraulic or non-hydraulic lift (Hoyer)  
Humidifier  
Intermittent positive pressure machine (IPPB)  
IV poles  
Lamps (heat, ultraviolet)  
Lap boards, lap trays (wheelchair)  
Mattresses (air, alternating pressure, gel, foam, water)  
Mattress pads  
Patient lifts  
Positioning equipment for wheelchairs, chairs, and beds  
Prone standers  
Pulse oximeter  
Reachers  
Restraints  
Safety rails (hallways, bathroom tub, toilet, shower)  
Sitz bath (portable)  
Sliding boards  
Standing tables

Suction machines (standard)  
TENS units  
Traction apparatus  
Transfer devices  
Trapeze  
Tub (rail)  
Vaporizer (room)  
Volumetric pump  
Walkers, canes, crutches (including quad canes)  
Wheelchairs (manual)  
Wheelchairs (power – see Section 5.160 of the Methods of Implementation)  
Whirlpool  
Wrist bands and alarm systems

## SECTION 900 – MINOR EQUIPMENT VERSUS CAPITALIZED MOVEABLE EQUIPMENT

### 901 CAPITALIZATION OF ACQUISITIONS

An item of durable moveable equipment must be capitalized and depreciated as moveable equipment over its estimated useful life when one of the following conditions exist at the time of acquisition.

- The equipment has an estimated useful life of at least 2 years and an acquisition cost of \$1,000 or \$4 per bed, whichever is greater, or
- If it was acquired in quantity, the equipment has an estimated useful life of at least 2 years and the quantity has an acquisition cost of at least \$2,000 or \$8 per bed, whichever is greater.

The facility may not establish a capitalization policy with lower minimum criteria for cost reporting purposes. If lower minimum criteria are established for financial statement reporting, a separate asset depreciation schedule must be maintained.

**COMPOSITE RATES:** A composite rate may be used for a number of individual asset units of a similar type where there is no great variation in service life. The composite rate is based on the average or composite life of a number of assets. The following example shows the calculation of a composite rate:

| Asset        | Estimated Life | Cost      | Salvage Value | Depreciable Cost | Depreciation Per Period (Straight Line) |
|--------------|----------------|-----------|---------------|------------------|---|
| A            | 6 periods      | \$40,000  | \$4,000       | \$36,000         | \$6,000                                 |
| B            | 8 periods      | \$35,000  | \$3,000       | \$32,000         | \$4,000                                 |
| C            | 10 periods     | \$15,000  | \$0           | \$15,000         | \$1,500                                 |
| D            | 12 periods     | \$30,000  | \$0           | \$30,000         | \$2,500                                 |
| <b>Total</b> |                | \$120,000 | \$7,000       | \$113,000        | \$14,000                                |

$\$113,000 / \$14,000 = 8.07$  periods composite life

$\$14,000 / \$120,000 = 11.6\%$  composite rate

### 902 MINOR EQUIPMENT

Minor equipment is any moveable equipment which is not capitalized, including waste baskets, bed pans, syringes, silverware, mops, buckets, etc. The general characteristics of this equipment are:

- No fixed location in the facility,
- Small in size and unit cost,
- Subject to inventory counts at year end,
- Fairly large quantity in use, and
- A useful life of three years or less.

### 903 WRITING OFF MINOR EQUIPMENT

Minor equipment must be charged to operating expenses in a reasonable, systematic and consistent manner from year to year. There are two techniques:

- **Inventory Method:** The original investment in this equipment is not amortized or depreciated and any replacements to the base stock are charged to operating expenses in the period of acquisition. At the end of the fiscal year, the base inventory of such equipment is adjusted when there is a significant change in the inventory size with an offsetting adjustment to operating expenses for the period.
- **Group Write Off Method:** The total acquisition cost of minor equipment in a year is written off and charged to operating expenses over at least a two year period.

#### 904 MINOR EQUIPMENT COST REPORTING

The current period operating expenses for minor equipment must be identified and reported in the supply expense of the applicable cost centers in the cost report.

## **SECTION 1000 – NURSE AIDE TRAINING AND COMPETENCY EVALUATION PROGRAMS**

The federal Centers for Medicare and Medicaid Services (CMS) requires that expenses incurred by nursing homes for training and testing nurse aides in approved training programs and approved competency evaluation programs (NAT/CEP) be identified separately. Report the direct expenses incurred for NAT/CEP required before an employee can be entered into the Nurse Aide Registry on Schedule 27, Column A. Do not report these expenses on any other schedule of the cost report except for the summary Schedules 12 and 13. Do not report expenses for inservice training programs on Schedule 27 as the expense of providing inservice training for nursing and special care personnel is included in the direct care allowance.

**DEEMED TRAINING PROGRAM:** A facility may have operated a nurse aide training program which the Bureau of Quality Assurance (BQA) has determined provides training substantively in compliance with the current requirements for nurse aide training programs. A deemed program is a retroactively approved program and the expenses for deemed programs should be included when completing Schedule 27, Column A.

**DIRECT EXPENSES:** Direct expenses are those expenses incurred by a facility which are readily identifiable with and ascribable to the NAT/CEP. This includes expenses which can be prorated directly to the NAT/CEP on an identifiable and supportable basis. For example, a full-time RN may have spent 135 instructing nurse aid training classes; therefore, a portion of the RN's salary should be prorated to the NAT/CEP and reported on the schedule.

**INDIRECT EXPENSES:** Expenses for indirect services and overhead should not be allocated to the NAT/CEP. For example, a portion of the administrator's salary should not be allocated to the NAT/CEP even though an administrator may have overall responsibility for the facility's operation and supervision of the staff in or presenting the training. However, if the administrator is an instructor in the NAT/CEP, a portion of his/her time and salary should be prorated to the NAT/CEP as in the previous example.

Following is a general description of direct expenses to be reported:

**SALARIES AND WAGES:** Include the productive salary and wage expenses for the time employed staff are trainers, presenters or evaluators in the NAT/CEP. Salaries for aides in training or replacement aides for those in training or testing should not be reported as a NAT/CEP expense. A portion of the non-productive paid time-off salary expenses for NAT/CEP staff should be prorated to NAT/CEP.

**NON-SALARY EXPENSES:** Expenses for services and materials purchased by the nursing home should be reported including, but not limited to, fees paid to visiting instructors, tuition paid for off-premises classes, fees for evaluation, textbooks, videos and other course materials. Other non-salary reportable NAT/CEP expenses include:

- **Transportation:** Report the expenses incurred by the nursing facility for transportation of persons to classes and evaluations which are readily identifiable or are supported by directly prorating to NAT/CEP.
- **Employee Reimbursement:** Report reimbursements made to employees for NAT/CEP expenses which were personally incurred by the employees, including tuition, testing fees or transportation to class or testing sites.
- **Specialized Training Equipment:** Report the rent and/or depreciation expenses of any capitalized training equipment which was acquired for the primary purpose of being used in NAT/CEP including any separately identifiable interest expenses incurred for the purchase of specialized training equipment.

**BUILDING SPACE EXPENSES:** The expenses attributable to space designated solely for NAT/CEP should be reported. If space outside the nursing home facility is rented, the rent should be reported as a NAT/CEP expense. If space within the nursing home facility is used, expenses should be prorated to NAT/CEP including, but are not limited to, lease expenses, depreciation, interest, property tax, utilities, maintenance and

housekeeping. Maintenance and housekeeping salary expenses allocated to NAT/CEP should be reported in the salary and wage expense section. No building space expenses should be prorated and reported as NAT/CEP for multi-purpose areas not solely for use for NAT/CEP.



## **SECTION 1100 – BEAUTY AND BARBER EXPENSES**

Direct expenses for beautician and barber services are not reimbursed under the Wisconsin Medicaid program and should be reported on Schedule 27. The need for beauticians and barbers is only occasional and is not considered as personal hygiene. Personal hygiene services such as hair washing and day-to-day grooming provided by nurse aides is reimbursable as part of the direct care allowance. Indirect expenses associated with the building space allocated to beauty and barber services are also allowable in the appropriate cost centers.

Facilities that employ or contract with beauticians and barbers may receive reimbursement from patient personal funds for the services provided.

## **SECTION 1200 – OVER-THE-COUNTER (OTC) DRUG EXPENSES**

Effective October 1, 1993, reimbursement for certain OTC drugs was included in the calculation of the nursing home daily rate while other OTC drugs continued to be separately billable. Therefore, the expenses for these two types of OTC drugs must be identified separately on the cost report.

The OTC drugs for which reimbursement is part of the daily rate include OTC analgesics and medically necessary non-covered OTC drugs. Providers may not bill the Wisconsin Medicaid program, residents, resident funds, resident families or other interested persons or reduce the patient liability on nursing home claims for these drugs or services. The expenses for these OTC drugs that are included in the facility's daily nursing home rate should be reported on Schedule 20, Line 13.

Certain other OTC drugs, including insulin, antacids, ophthalmic lubricants and certain cough syrups, continue to be billable to Wisconsin Medicaid using drug claim forms. The expenses for these OTC drugs that are separately billable and not included in the daily rate should be reported on Schedule 21, Line 11 in the pharmacy column.

## **INSTRUCTIONS FOR COMPLETING SCHEDULE 4 MAJOR REVENUE-GENERATING ACTIVITIES**

**GENERAL:** Many Medicaid nursing home providers are operated in conjunction with other enterprises or major revenue-generating activities. Such multi-purpose operations may generate significant revenues from and incur expenses for one or more of the non-nursing home activities or specialized medical services listed on Schedule 4. Annual revenues over \$4,000 are considered significant.

A multi-purpose operation will generally incur direct expenses that are readily identifiable with and ascribable to the nursing home and each revenue-generating activity such as expenses for salaries, materials, services and physical plant space.

The nursing home and other revenue-generating activities may share the expenses of centralized functions or unassigned indirect expenses. These expenses must be appropriately allocated between the nursing home provider and the other revenue-generating activities using statistics which reasonably and fairly reflect the benefits each activity derives from the shared services. For example, dietary expenses should be allocated on the basis of meals served while maintenance expenses should be allocated on the basis of building square footage used by the nursing home and the other revenue-generating activities.

Two alternatives are available for cost reporting:

- All expenses of the operation may be reported on the cost report. Direct expenses which cannot be assigned to the nursing home should be reported on Schedule 27 and expenses for shared services and indirect expenses should be allocated on the schedules provided in the cost report.
- The cost report may include only the direct expenses assigned to the nursing home and the portion of the expenses for shared services and indirect expenses allocated to the nursing home.

The nursing home must submit allocation schedules with this cost report which disclose how shared and indirect expenses were allocated between the nursing home and the other revenue-generating activities. The allocation schedules must:

- Describe the allocation technique used,
- Describe the type of allocation basis and amounts used for allocating each shared service and indirect expense, and
- Identify the percentages of each cost centers' expenses which were allocated to the nursing home provider.

The allocation of shared and indirect expenses is detailed in Section 700.

## **INSTRUCTIONS FOR COMPLETING SCHEDULE 5 BUILDING SQUARE FOOTAGE**

To the extent possible, report the internal square footage for each building or building wing separately as of the end of the cost reporting period. Report the square footage of each major identifiable area used by each service listed in the cost report. The latest evaluation reports prepared by the Department-designated appraiser using the Boeckh Commercial Valuation System may be utilized to determine square footage.

### **REPORTING EXCEPTIONS**

**SMALL FACILITIES:** Facilities under 50 licensed beds do not need to complete this schedule if they are not associated with a major revenue-generating activity.

**SEPARATE WINGS:** The square footage for separate wings in a building can be reported together if it is not readily and separately identifiable.

**APPROXIMATIONS:** The square footage does not have to be exact. Of primary importance are the total square footage and the square footage of revenue-generating areas including pharmacies, physical therapy areas and rented spaces. Patient living areas and support service areas, such as dietary and laundry, can be a general estimate and blueprint measurements are generally acceptable.

### **RENTED BUILDING AREAS**

The square footage of any rented building areas should be reported on lines 17 through 19.

## **INSTRUCTIONS FOR COMPLETING SCHEDULE 6 TOTAL PATIENT DAYS**

Report the total patient days during the cost reporting period by level of care and funding source for all residents in the licensed nursing home. The day of admission is the day when a resident is admitted for bed occupancy and counts as a patient day. The day of discharge or death are the same, the day of discharge is not counted as a patient day. For example, if a resident is admitted and discharged on the same day, it should be reported as one patient day.

Any resident paying for a double-occupancy room (one resident pays for one or more beds) or any AIDS resident in a double-occupancy room occupied only by themselves should be reported as one patient day. However, if a bed hold day is claimed at the ISN rate for the empty bed in an AIDS resident's semi-private room, the bed hold day should also be reported.

All Medicare (Title XVIII) patient days should be reported at either the SNF or ISN level of care. Use the ISN level of care if the ISN criteria apply to the resident.

Report all patient days for developmentally disabled (DD), hospice and ventilator-dependent residents. In the appropriate DD columns, report the patient days for DD residents who require active treatment according their assigned DD level. The patient days for DD residents who do not require active treatment and are designated NAT should be reported as ICF or SNF appropriate to the level of medical care provided.

Institutions for Mental Disease (IMD) should report patient days for IMD residents who are not eligible for Medicaid (age 21 through 64) on lines 4 or 5, not on line 1. Only patient days for Medicaid-eligible IMD residents should be reported on line 1.

Report bed hold days for charged therapeutic and hospital bed hold leave. Bed hold days for Medicaid residents who were not covered due to occupancy requirements should not be reported. Bed hold days reimbursed by Medicaid fee-for-service should be reported on line 7 and bed hold days reimbursed by Family Care should be reported on line 8.

Distinct part ICF-MR facilities which are certified both as a NF and an ICF-MR should report total patient days for the entire facility on Schedule 6 and patient days only for the ICF-MR on Schedule 7.

The level of care of residents should be determined using the criteria in Chapter HSS 132, Wis. Admin. Code. Criteria for the ISN level of care have been provided to facilities by BQA.

## **INSTRUCTIONS FOR COMPLETING SCHEDULE 7 PATIENT DAYS IN DISTINCT PART ICF-MR FACILITIES**

For facilities certified as both a NF and an ICF-MR, report the patient days for the ICF-MR distinct part of the facility which should also be included in Schedule 6.

## **INSTRUCTIONS FOR COMPLETING SCHEDULE 8 TOTAL PATIENT DAYS BY MONTH**

For all facilities that have billed and received reimbursement from the Medicaid program for bed hold days during the cost reporting period (as reported on Schedule 6, Line 7), report the total patient days for all funding sources and levels of care for each month in the fiscal year. Report bed hold days for charged therapeutic and hospital bed hold leaves. Do not report bed hold days that were not covered due to occupancy requirements. The totals on this schedule should agree with the totals reported on Schedule 6.

## **INSTRUCTIONS FOR COMPLETING SCHEDULE 9A HOSPICE PATIENT DAYS**

This schedule should be completed only by facilities that reported patient days for permanent or long term hospice contract residents on Schedule 6. For permanent resident hospice clients, the nursing home is expected to be the client's residence until death. The hospice provides the core medical services such as nursing, physician services, medical social services and counseling services but contracts with the nursing home to provide room and board. Report the patient days in the same level of care as on Schedule 6.

## **INSTRUCTIONS FOR COMPLETING SCHEDULE 9B VENTILATOR DEPENDENT PATIENT DAYS**

This schedule should be completed only by facilities that report patient days for ventilator dependent residents on Schedule 6. Report the patient days in the same level of care as on Schedule 6.

## **INSTRUCTIONS FOR COMPLETING SCHEDULE 10 BALANCE SHEET**

Complete the balance sheet for the beginning and ending dates of the cost reporting period. As an alternative, you may attach the nursing home's balance sheet for the beginning and ending dates of the cost reporting period instead of completing the schedule.

## **INSTRUCTIONS FOR COMPLETING SCHEDULE 10A SUMMARY OF CHANGES IN OWNERS' EQUITY**

The increase or decrease in total owners' equity reported on Schedule 10 must be reconciled to the net income/loss on Schedule 11. If Schedule 10 includes data from non-nursing home activities, the net income/loss from those activities must be shown as a reconciling item on this schedule.

## **INSTRUCTIONS FOR COMPLETING SCHEDULE 14 DAILY PATIENT SERVICE REVENUE**

**DAILY RATE CHARGES** (lines 1-4): Report revenues earned from daily accommodation rate charges.

**BED HOLD CHARGES** (lines 5-7): If separately available, report revenues earned from bed hold charges. If not separately available, include revenues in lines 1-4 and indicate such.

**MEDICAL SUPPLIES** (lines 8-9): Report revenues earned from the sale of medical supplies and materials.

**OTHER** (line 10): Report and briefly describe other daily patient service revenues.

**OTC DRUGS** (line 11): Report revenues earned from the sale of OTC drugs. Other drug revenue should be reported as pharmacy on Schedule 15, Line 3.

Revenues from the sale of personal hygiene and personal comfort items should be reported on Schedule 16, Line 8. Transportation revenues should be reported on Schedule 16, Line 9.

If medical supplies are charged to the Medicare (Title XVIII) program, complete Schedule 51.

## **INSTRUCTIONS FOR COMPLETING SCHEDULE 15 SPECIAL SERVICE REVENUES**

Report revenues from special services by type of service.

**SERVICE FEE CHARGES** (column A): Report revenues earned from services fees charged to residents or third party payers.

**RENT FROM OUTSIDE MEDICAL PROVIDERS** (column B): Report revenues earned from rental of space and equipment to outside medical providers and describe any contractual arrangements that the nursing home provider has with outside medical providers for the usage of space, equipment and staff.

**OTHER** (column C): Report other special service revenues and briefly describe the source or purpose of the revenues.

Refer to the following schedules and the instructions regarding the allocation of general service expenses and property expenses to those building areas which are used for provided the revenue generating activities or which are rented out for those services. If applicable, administrative service expenses must be allocated to the revenue generating activity.

- Allocation of general service expenses – Schedules 25A and 25B
- Allocation of administrative expenses – Schedule 26B
- Heating fuel and utility expenses – Schedule 29
- Allocation of property expenses – Schedule 40

## **INSTRUCTIONS FOR COMPLETING SCHEDULES 16, 17 AND 18 OTHER REVENUES**

Report all revenues earned on Schedules 16, 17 and 18 in the major groupings listed below. For certain revenues, both the revenue and the related expenses are to be reported if available.

- Group A: Cafeteria and dietary revenues
- Group B: Miscellaneous services and materials sold to residents and others
- Group C: Rental revenues
- Group D: Major revenue generating activities associated with the nursing home provider
- Group E: Sales to related organizations (services and materials)
- Group F: Interest and investment revenue
- Group G: Gains (losses) on disposal and sale of assets
- Group H: Subsidy grants for government subsidized employees
- Group I: Grants, contributions and donations
- Group J: Other revenues

On Schedule 16, Group B, report the revenues earned from the listed types of miscellaneous services and materials. Report the direct expenses incurred to generate the revenue and where the expenses were reported in cost report. If the expense is zero, enter "\$-0-". If the expense is not available, enter "Not Avail".

On Schedule 17, Group C, if the total rental revenues exceed \$4,000 during the cost reporting period, shared services and indirect expenses must be allocated to the rented building areas and rented equipment. Allocations of general services expenses should be done on Schedules 25A and 25B, property expenses on Schedule 40 and administrative expenses on 26B. Allocations are optional if the total rental revenues is less than \$4,000.

On Schedule 18, Group E, use a separate sheet to describe the item or service sold, the direct expenses related to the sale and where the expenses are reported in the cost report, if the expenses are available. Allocate any expenses for shared services and indirect expenses to the materials or services sold, if applicable.

On Schedule 18, Group F, working capital investments are defined as funds regularly used for current operations and current debt payments as needed or for some specific current expenditure such as property taxes.

Other investments may include, but are not limited to, funds reserved for plant asset loan payments, expansion or remodeling, contingency needs or future business ventures. Any interest/investment income generated by a related organization or by an organization over which the nursing home exercises control (as defined in Section 400) must be included and reported on this line except for home office interest/investment revenue which is to be removed from home office expenses on Schedule 26, Lines 6 and 7.

On Schedule 18, Group I, Line 61, report only donor-restricted grants and contributions (past and current) which were used for current operation expenses during the cost reporting period.



## **INSTRUCTIONS FOR COMPLETING SCHEDULE 20 DAILY PATIENT SERVICE EXPENSES**

Further instructions on completing this schedule can be found in Section 500. Government facilities may use the cash method of accounting to report expenses in lieu of the accrual method. When reporting accrued salary expenses, remember to also accrue the hours related to the salary expenses.

**SINGLE TASK EMPLOYEES:** Single task employees carry out limited tasks normally performed by nurse aides. The salary expenses and hours for single task employees should not be reported on Schedule 20 but should be included in the cost center that most represents the task performed. For example, feeding assistance should be reported in dietary, bed making should be reported in housekeeping and transporting residents should be reported in other special services.

**DIRECTOR OF NURSING (DON):** The salary expense and hours for the DON should be reported on Schedule 20.

**NURSE AIDES, NURSE ASSISTANTS AND RESIDENT LIVING STAFF:** Salary expenses and hours for nurse aides, nurse assistants and resident living staff should be reported on Schedule 20, including individuals who perform routine patient care duties for the direct health care of residents which are delegated by a supervising registered nurse or licensed practical nurse. The duties primarily involve skills that are taught in the instructional programs certified under Chapter HFS 129.05, Wis. Admin. Rules. These staff are listed on the registry established under Chapter HFS 129.10, Wis. Admin. Rules, unless they have enrolled but not yet completed the required instructional program.

Report expenses assigned to daily patient services for only the nursing home operation on Schedule 20. Daily patient service expenses not related to the nursing home operation should be reported on Schedule 27 or excluded from the cost report. If excluded, related fringe benefit expenses must be excluded from Schedule 28. NAT/CEP expenses should also be reported on Schedule 27, Column A as described in Section 1000.

**Line 1:** Report salary and wage accrued expenses for productive hours worked by employees, including the expenses of premium wage rates paid for overtime. Exclude expenses for contracted or purchased services.

**Line 2:** Report the number of accrued productive hours worked by employees which are related to the reported expense on line 1, including hours worked for salaried employees. Overtime hours worked should be reported as one hour for each hour worked.

**Line 3:** Report only the amount paid for salaries and wages for non-productive hours or paid time-off actually taken during the cost reporting period. Accruals of paid time-off are not allowed.

**Line 4:** Report the number of non-productive hours or paid time-off related to the reported expense on line 3.

**Line 6:** Report the accrued expenses for purchased services.

**Line 8:** Report the accrued expenses for outside purchased services to launder diapers and underpads including rental charges for diapers and underpads provided by the laundry.

**Lines 9 – 12:** Segregate medical supply expenses into the four major groups as described in Section 800, including both disposable and reusable items. On line 11, report only oxygen expenses as provided in cubic feet, pounds, tanks for the daily rental of oxygen concentrators.

**Line 13:** Enter all expenses for OTC analgesics and medically necessary OTC drugs that are non-billable. Exclude expenses for other OTC drugs including insulin, antacids, ophthalmic lubricants and certain cough syrups that are billable to Medicaid on drug claim forms which should be reported on Schedule 21.

## **INSTRUCTIONS FOR COMPLETING SCHEDULES 21, 22, 23, 24 AND 24A SPECIAL SERVICE EXPENSES**

Further instructions can be found in Section 500. Special services not related to the nursing home operation must be reported on Schedule 27 or be excluded from the cost report. If excluded, related fringe benefit expenses and hours should be excluded from Schedule 28.

**BILLABLE AND NON-BILLABLE SERVICES:** Salary and purchased service expenses along with the related hours should be distributed between billable and non-billable services. If actual expenses or statistical data are not available to make this distribution, reasonable and supportable estimates may be acceptable.

**BILLABLE SERVICES:** Billable services are those types of medical services that can be separately billed to the Medicaid program by the professional medical provider. Generally, billable services are professional medical services provided directly to individual residents which are billed to Medicaid separately. The expenses for these services should be reported as billable whether or not the Medicaid program and/or private pay residents were charged for the service.

**NON-BILLABLE SERVICES:** Non-billable services are services provided to the facility as a whole or which are not separately billable to the Medicaid program which include, but are not limited to, a medical director, pharmacy consultant, OTR consultant and social worker.

Lines 1 – 5: When reporting accrued salary expenses, remember to also accrue the related hours. Report the total accrued salary expenses and the related hours worked between billable and non-billable services.

Lines 6 – 9: Report the accrued expenses and hours for purchased services, distributing between billable and non-billable services as possible. Only non-billable purchased service hours must be reported. Reasonable and supportable estimates of hours may be acceptable.

Lines 10 – 14: Report the expenses for supplies and describe, or use the nursing home's descriptive account title.

Line 11: Report all expenses for covered OTC drugs including insulin, antacids, ophthalmic lubricants and certain cough syrups that are billable to Medicaid. Exclude OTC analgesics and medically necessary non-covered OTC drugs that are included in the Medicaid nursing home daily rate, which are reported on Schedule 20.

Line 16: Report the total hours for salaries, wages and purchased service expenses.

Schedule 24A: Volunteer coordinator expenses should be reported in Column 1 and Ward clerk expenses should be reported in Column 2.

The last 2 columns are open and should be used to report any special services not specifically listed on Schedules 21, 22, 23 or 24. For example, expenses and hours for hearing therapy, QMRP, special duty nursing, chiropractic care or podiatry care should be reported in the last 2 columns. Describe any other type of special service that may be reported and attach additional sheets if necessary.

## **INSTRUCTIONS FOR COMPLETING SCHEDULE 25 GENERAL SERVICE EXPENSES**

Lines 1 – 5: When reporting accrued salary expenses, remember to also accrue the related hours.

Line 6: Report purchased services for a dietician consultant.

Lines 8 – 11: Report purchased service expenses.

Lines 13 – 17: Report the expenses for supply and other and describe the expenses or enter the nursing home's descriptive account title. Expenses for equipment repairs and maintenance should be reported under plant operation and maintenance.

Exclude expenses for heating fuel and utilities which should be reported on Schedule 29.

## **INSTRUCTIONS FOR COMPLETING SCHEDULES 25A AND 25B ALLOCATION OF GENERAL SERVICE EXPENSES**

Further instructions are available in Section 700. Schedules 25A and 25B are provided to allocate the general service expenses between the nursing home provider and other major revenue generating activities which shared general services during the cost reporting period. Complete only the sections relating to the general services shared between the nursing home and other activities.

Each general service cost center is allocated based on a commonly accepted statistical basis specified below:

- Dietary: meals served (Line 6)
- Plant operation and maintenance: square footage (Line 12)
- Housekeeping: square footage or hours provided (Line 15)
- Laundry and linen: pounds of laundry processed (Line 18)
- Security: square footage (Line 21)
- Transportation: select and describe a reasonable and available allocation basis (Line 24)

If the allocation basis specified in the section is not used, describe any other allocation basis used. The allocation ratio is calculated using the basis amounts. For example, for the dietary cost center, the ratio on Line 7B is the meals on Line 6B divided by the total meals on Line 6A.

The section for dietary expenses allows for allocating dietary expenses to employee meals. The net expense allocated to employee meals on Line 11 should not be transferred to Schedule 28 as an employee fringe benefit. Allocate expenses for a significant number of guest meals.

If more than 1% of total building space is rented out or used for other revenue generating activities, it should be allocated to the activities. Heating, fuel and utility expenses must also be allocated to the activities on Schedule 29.

## **INSTRUCTIONS FOR COMPLETING SCHEDULE 26 ADMINISTRATIVE SERVICE EXPENSES**

Lines 1 – 5: Report total productive and non-productive salary expenses. Reporting hours and detailed salary expenses are optional.

Lines 6 – 7: Complete Schedule 26A if it applies to the nursing home. Do not report the expenses for management fee charges from related organizations. The amount reported for any home office costs allocated to the facility must be the net of any interest/investment income allocated to the facility.

Lines 8 – 11: Report the non-salary administrative expenses and segregate on lines 8-10 into the three major groups listed. Report the total of other non-salary expenses on line 11. The itemization of the other total on line 11 should be reported on the Schedule 26 attachment.

Include abandoned planning expenses as explained in Section 603, which should also be reported on Schedule 43 as not related to patient care. Exclude planning expenses related to patient care, which should be reported on Schedules 32 or 34 and amortized over the life of the related asset.

## **INSTRUCTIONS FOR COMPLETING SCHEDULE 26B ALLOCATION OF ADMINISTRATIVE SERVICE EXPENSES**

Further instructions are available in Section 700. Schedule 26B is provided to allocate the administrative service expenses reported on Schedule 26 between the nursing home and any other major revenue generating or non-nursing home activities which received administrative services during the cost reporting period.

Line 1: Report the total administrative expenses from Schedule 26, Line 12.

Section A: Administrative expenses that are readily identified in the financial records and can be directly ascribed to a specific activity should be reported in Section A under the related activity.

Column A: Report the portion of the total administrative expenses from line 1 which can be directly assigned to the nursing home or the non-nursing home activities.

Column B: Report the amount from Column A which can be directly assigned to the nursing home operation.

Columns C – E: Report the amount from Column A which can be directly assigned to a major revenue generating or non-nursing home activity.

Line 16: The net administrative expenses which are not directly assigned to the nursing home or non-nursing home activities are line 1 less lines 2 through 14. This net unassigned expenses should be allocated in Section B.

SECTION B: Select a reasonable and supportable allocation basis and allocate the net unassigned administrative expenses on line 16 between the nursing home and revenue generating and non-nursing home activities. The ratio for Line 18B is Line 17B divided by 17A.

## **INSTRUCTIONS FOR COMPLETING SCHEDULE 27 OTHER COST CENTERS**

This schedule should be completed for any cost centers that are not included in previous schedules. Column A should be used for reporting only NAT/CEP expenses as explained in Section 1000.

Any other cost centers reported in Columns B through E should be identified, which includes, but is not limited to, beauty and barber shop, gift shop, snack counter, day care services, home care services and fund raising activities.

**MAJOR REVENUE GENERATING ACTIVITIES:** This schedule should be used to report expenses directly ascribable to or identifiable with major revenue generating activities with which the nursing home is associated.

Lines 1 – 5: Include the hours for NAT/CEP expenses reported in Column A. Reporting hours is optional for other cost centers.

Lines 6 – 17: Report the non-salary expenses for each cost center and describe the expenses or enter the nursing home's descriptive account title.

## **INSTRUCTIONS FOR COMPLETING SCHEDULE 28 EMPLOYE FRINGE BENEFIT EXPENSES**

Report only the accrued expenses for employee fringe benefits which relate to the salary and wage expenses in Schedules 20 through 27. Exclude expenses related to salaries and wages which are not reported in previous schedules and expenses reported elsewhere in the cost report.

Fringe benefits are defined as expenses incurred by a nursing home from which an employee or his/her beneficiary derives a personal benefit before or after the employee's retirement or death. In general, the following are not fringe benefit expenses unless specifically listed in Schedule 28:

- Expenses to comply with state licensing and federal certification requirements,
- Expenses incurred for the provider's convenience,
- Expenses to advance or protect the provider's interest, and
- Expenses from which employees derive or may derive only incidental or nominal benefits.

Expenses related to the physical plant including depreciation, rent, property tax, maintenance and housekeeping expenses cannot be allocated and reclassified to employee fringe benefit expenses. For example, expenses allocated to the employee break room cannot be reported as fringe benefits expenses. An exception may be allowed when it is clearly shown that employees receive a direct and significant financial benefit from physical plant expenses and the expenses can be adequately determined. If only a few select employees receive the benefit, the expenses should be reported as unique fringe benefit expenses on Schedule 46.

Training, tuition, convention and seminar expenses such as material costs, fees and travel expenses for inservice training, off-premises training, conventions, seminars and similar events cannot be reported as fringe benefit expenses because they are considered expenses that benefit or advance the provider's interest even though they may be a perquisite for employees. Such expenses should be reported as fringe benefit expenses only if they are clearly for the sole personal benefit of the employee, such as a tuition scholarship for a nurse aide to become a registered nurse. If only a few select employees receive the benefit, the expenses should be reported as unique fringe benefit expenses on Schedule 46.

Other items are specifically excluded from fringe benefit expenses including name tags, snow removal, advertising for help, life insurance policies of which the facility is the beneficiary and membership fees for professional, technical, civic or other organizations whose function and purpose relate to the operation of nursing homes and businesses.

Line 1: To report FICA expenses, use the amounts per the quarterly FICA reports. If the cost reporting period ends in a different month than the FICA reports, the expenses must be adjusted based on the matching number of months.

Line 16: Special payments to employees which are not related to any specific number of hours, such as a regular flat allowance for uniforms or an annual holiday or longevity bonus, should be reported on Line 16. These expenses should not be reported on Line 3 of Schedules 20 through 27.

### **INSTRUCTIONS FOR COMPLETING SCHEDULE 30 INTEREST EXPENSES ON OPERATING WORKING CAPITAL LOANS**

A working capital loan is defined as a loan that provides funds for either the current year's or past years' daily operations of the nursing home. Report both current and long term working capital loans on this schedule but do not include any interest expenses on loans for the acquisition of plant assets, which should be reported on Schedule 33.

Report the name of each lender and the accrued interest expenses for each loan during the cost reporting period. On Line B, check Yes if the lender is related to the provider by common ownership or control as explained in Section 400.

### **INSTRUCTIONS FOR COMPLETING SCHEDULE 31 INSURANCE EXPENSES**

Report the accrued insurance expenses for the cost reporting period by type of coverage. For package policies that cover different types of insurance, obtain an estimate from the insurance agency/company which separates the cost of the policy between the various types of coverage.

### **INSTRUCTIONS FOR COMPLETING SCHEDULE 32 AMORTIZATION OF DEFERRED EXPENSES**

Report the deferred expenses and the amount of the expenses amortized to the cost reporting period including, but not limited to, debt premiums or discounts, organization costs, goodwill, start-up costs and planning costs related to patient care and resulting in the development or acquisition of a depreciable asset. Allowable planning costs can be reported on either this schedule or as a capitalized cost of the depreciable asset on Schedule 34. Further instructions regarding allowed start-up costs can be found in Section 601. Further instructions regarding abandoned planning expenses can be found in Section 603.

Column A: Enter a full and complete description of the deferred expenses.

Column D: Report the amortization method used along with the amortization years.

### **INSTRUCTIONS FOR COMPLETING SCHEDULE 33 INTEREST EXPENSES ON PLANT ASSET LOANS**

A plant asset loan is defined as a loan used to finance the acquisition or construction of land, buildings and equipment or the betterment or improvement of such plant assets. Report both the current and long term portions of plant asset loans but do not include interest expenses on operating working capital loans, which should be reported on Schedule 30. Separately itemize each plant asset loan by lender.

Line A: Enter the name of the lender.

Line B: Check Yes if the lender is related to the provider by common ownership or control as explained in Section 400.

Line C: Briefly explain the purpose of the loan.

Columns D – F: Enter the remaining balance of the principal for each loan:

- at the beginning of the cost reporting period,
- at the end of the sixth month of the cost reporting period, and
- at the end of the cost reporting period.

Column H: Report the accrued interest expenses for the cost reporting period.



## **INSTRUCTIONS FOR COMPLETING SCHEDULE 34 DEPRECIATION EXPENSES**

This schedule provides a detailed list of plant asset depreciation expenses and the related balance sheet amounts by major groups of plant assets. Report the expenses and balance sheet amounts according to GAAP except when the instructions require other reporting methods.

**SECTION A:** Historical cost is defined as the total actual cost incurred in acquiring and preparing a plant asset for use, including the purchase price, architect fees, consulting fees, legal fees, interest expenses incurred during construction and installation costs. The historical cost is reduced by discounts, rebates or litigation settlements received from the construction contractors or sellers of the plant assets. Report the provider's total historical cost of each plant asset group indicated by the column and line headings. Fixed equipment may be included with the building if the provider's records do not readily allow for separation.

**SECTION B:** Depreciation expenses are defined as the amount resulting from the distribution of the capitalized historical cost, less salvage value, among the accounting periods of an asset's estimated useful life. Accumulated depreciation on a specific date is defined as the summation of depreciation expenses distributed amount accounting periods prior to that date.

In Column A, report the depreciable useful life or the range of the most common depreciation lives used and indicate the depreciation method used. The depreciable life of an asset is defined as its estimated useful life to the provider, not necessarily the inherent useful or physical life. The useful life is determined using the provider's experience, the general nature of the asset and other pertinent data. Some factors to consider are normal wear and tear, obsolescence due to normal economic and technological advances, climactic and other local conditions and the provider's policy for repairs and replacement. Factors such as expected earlier sale, retirement or demolition should not be considered when determining the estimated useful life of an asset. Providers should follow the guidelines published by the American Hospital Association when estimating a reasonable useful life. Depreciation options available for income tax purposes, such as the Asset Depreciation Range System or the Additional First-Year Depreciation, may not be used. A composite useful life may be used for a class or group of assets. Buildings, building components and fixed building equipment may be depreciated using a composite useful life.

For the initial construction of buildings, including fixed equipment and land improvements, the minimum useful life must be 35 years from the earlier of the date of initial licensure as a nursing home or other health care facility or the date of initial occupancy. A minimum estimated useful life of 20 years will be applied to facilities purchased after July 1, 1988, and 5 years from the purchase of used moveable equipment.

Both depreciation expenses and accumulated depreciation should be reported using the straight line method.

### **DEFINITIONS:**

Land includes the land owned and used by the operation. The cost of land includes off-site sewer and water lines, public utility charges necessary to service the land, governmental assessments for street paving and sewers, curbs and sidewalks of which the provider is not responsible for replacement and other land expenditures of a non-depreciating nature.

Depreciable land improvements of which the provider is responsible for replacement, including paving, tunnels, underpasses, on-site sewer and water lines, parking lots, shrubbery, fences, walls, etc.

Building includes, in a restrictive sense, the basic structure of shell and betterments and additions thereto. The remainder is identified as fixed or building equipment.

Leasehold improvements include betterments and additions made to leased property by the lessee which may be depreciated over the useful life of the improvement or the remaining term for which the provider will have use of the property, whichever is shorter. The option to use the shorter remaining life of the lease is allowed only if the intention that the lease will not be renewed is confirmed in writing.

Fixed equipment is, in general, affixed to the buildings and not subject to transfer, including wiring, electrical fixtures, plumbing, elevators, heating and air conditioning systems, nurse call systems, etc.

Moveable equipment is, in general, capable of being moved within or from the building, including beds, desks, wheelchairs, tables, washers, ranges, refrigerators and office equipment. Further instructions regarding capitalization versus expensing of equipment can be found in Section 900.

## **INSTRUCTIONS FOR COMPLETING SCHEDULE 35 LEASE EXPENSES ON OPERATING LEASES AND NON-CAPITALIZED LEASES**

Report the accrued expenses incurred on operating leases and non-capitalized leases or rental agreements. Exclude expenses from leases that have been capitalized, which should be reported on Schedule 36.

Beginning with fiscal years ending in 2002, report lease expenses only for those items that would have met the minimum capitalization policy explained in Section 901 if they had been purchased instead of leased. Expenses for items that do not meet this requirement should be reported in either the Maintenance or A&G cost center. Report expenses for short-term rentals (30 days or fewer) that are not part of a larger capitalized project should also be reported in either the Maintenance or A&G cost center.

Itemize each lease or rental agreement by lessor.

Column B: Check Yes if the provider is related by common ownership or control to the lessor as explained in Section 400.

Column C: Check Yes if the lease is a lease-purchase agreement, which is generally established if the lease agreement transfers ownership of the property to the leasing provider (or related party) by the end of the lease term or the lease contains a bargain purchase option. A bargain purchase option is defined as an agreement provision allowing the provider or a related party to purchase the leased property for a price which is significantly lower than the expected fair value of the property at a date the option becomes exercisable.

Column D: Report the lessor's acquisition cost of the leased property if available.

Column E: Report the date the provider or related party initially acquired use of the leased property.

Column F: Briefly describe the leased property.

Column G: Report the accrued lease or rental expenses for the cost reporting period.

Identify any leased property that was formerly owned by the provider or a related party.

### **INSTRUCTIONS FOR COMPLETING SCHEDULE 36 LEASE EXPENSES ON CAPITALIZED LEASES**

Report the expenses on leases which have been capitalized of FASB Statement 13, Accounting for Leases. Separately itemize each lease by lessor and, if possible, separate leases for land and buildings from leases for moveable equipment. Attach additional sheets if necessary.

For each lease, complete the questions, briefly describe the leased property and entered the accrued expenses on Lines A through D. Report the actual payments required under the lease contract for the cost reporting period, which is the amount recognized as allowable property related expenses. All capitalized lease expenses should only be reported on this schedule. If such expenses are reported elsewhere in the cost report, identify the schedule, line and amount.

### **INSTRUCTIONS FOR COMPLETING SCHEDULE 37 PROPERTY TAX EXPENSES**

Report the expenses for real estate and personal property taxes. Exclude special assessments for capital improvements such as sewers, water mains and pavements, which should be capitalized and reported on Schedule 34.

Tax exempt facilities should report the expenses incurred for services financed through the municipality's property tax and clearly describe the services and the source of the expenses. These expenses should only be reported on this schedule.

## **INSTRUCTIONS FOR COMPLETING SCHEDULE 40 ALLOCATION OF PROPERTY EXPENSES**

This schedule is provided to allocate property expenses between the nursing home and other major revenue generating activities that use building areas. Property expenses should be allocated if more than 1% of the total building space is used for such activities and/or rented out.

**SECTION A:** Report property expenses that can be directly ascribed or assigned to specific building or service areas if readily identified in the provider's records. When completing columns B through E, it is not necessary to directly assign all of the expenses listed in Column A. For example, transportation vehicle depreciation may be allocated in Section A based on usage information such as miles drive or some other reasonable allocation basis.

**Column A:** Transfer the total expenses from the referenced schedule for each type of property expense.

**Column B:** Identify and report the portion of each property expense which can be directly assigned to the nursing home service areas.

**Columns C – E:** Identify and report the portion of each property expense which can be directly assigned to the major revenue generating activities for the building areas used.

**Line 15:** Sum lines 1 through 14 for each column.

**Line 16:** Sum of Line 15, Columns B through E to calculate the total property expenses which have been directly assigned to the various building areas.

**Line 17:** Subtract Line 16 from Line 15, Column A to calculate the net property expense which has not been assigned to any specific area. This net unassigned expense will be indirectly allocated in Section B.

**SECTION B:** On the basis of square footage for each building or service area, allocate the unassigned property expenses from Line 17 between the nursing home and other major revenue generating activities. The ratio for Line 19B is the square footage on Line 18B divided by the total square footage on Line 18A.

## **INSTRUCTIONS FOR COMPLETING SCHEDULE 41 ACCOUNTING AND REPORTING POLICIES**

Further instructions on non-productive salary expenses is provided in Sections 504, 505 and 506.

**SECTION B:** The expenses for non-productive salaries and paid time-off should be reported on Line 3 of Schedules 20 through 27. The related non-productive hours are reported on Line 4 of the same schedules.

**Column A:** Check Yes for each type of paid time-off included in the non-productive salary expenses and hours.

**Column B:** The Department will not recognize accruals of expenses for paid time-off. Non-productive salaries and hours should be reported on the basis of time-off actually used by employees during the cost reporting period, as explained in Section 506.

**Column C:** Check Yes if non-productive salaries and hours were estimated as explained in Section 505. Describe the estimated techniques used and attach additional sheets if necessary. The phrase, "per Department policies" is not an acceptable explanation.

## **INSTRUCTIONS FOR COMPLETING SCHEDULE 42**

### **IDENTIFICATION OF EXPENSES FROM TRANSACTIONS WITH RELATED PARTIES**

Identify and report expenses included in the cost report which are the result of transactions with related parties or organizations, as explained in Section 400.

Column A: Briefly describe the expense.

Columns B – E: Identify where the expense was reported in the cost report.

Column F: Report the amount of the expense in the cost report.

Column G: Report the expenses incurred by the related party in bona fide arms-length transactions.

Column H: On Line 9, subtract Column G from Column F. If Column F exceeds Column G, the difference will be a negative amount.

**SECTION A:** Report the expenses for related party leases on Lines 1 through 9. The expenses incurred by the related party lessor should be reported on Schedules 31, 32, 33, 34, 37 and 39. Label the completed schedules, "Related Party Lease" and attach facsimiles to the cost report.

**SECTION B:** Report the expenses for all other related party transactions on Lines 10 through 14, excluding compensation paid to owners and family relations which should be reported on Schedules 44 and 45.

## **INSTRUCTIONS FOR COMPLETING SCHEDULE 44 IDENTIFICATION OF COMPENSATION TO KEY PERSONNEL**

Key personnel are defined as:

- owners, immediate family relations and other related parties. An owner is any person having an equity interest in the provider. Immediate family relations include husband/wife, natural parents, children, siblings, adoptive children, adoptive parents, step-parents, step-children, step-siblings, father-in-law, mother-in-law, brother-in-law, sister-in-law, son-in-law, daughter-in-law, grandparents and grandchildren. Other related party is defined as an individual with significant control or influence over the policies or actions of the provider,
- workers who are members of the religious order or society operating the nursing home, or
- arm's length employees who are supervisors and managers with decision-making authority. The administrator is always defined as a key employee due to responsibilities in statute and administrative rule. Decision making authority is considered the ability to hire or fire employees within their area of responsibility or to purchase goods or services for the facility. Purchasing authority includes making disbursements within an overall operating budget and may also include the authority to contractually bind the provider through major asset acquisition or financing arrangements.

Column A: Report the individual's first and last name.

Column B: Report the individual's title or area of responsibility from the categories listed on the bottom of the page. The title and responsibilities should be reflected in the individual's position description and the actual duties performed for the nursing home. For example, the chief financial officer would have the final decision making authority over financial operations and have other financial managers reporting to him/her; the business manager would have decision making authority over day-to-day financial operations under general guidelines, while an accountant would not have any direct decision making authority.

For arm's length key personnel, only the Director of Nursing and one nurse supervisor with the highest compensation should be reported for direct and special care.

Column C: Check Male or Female.

Column D: Report the highest level of education attained by the individual from the categories listed on the bottom of the page.

Column E: Report the years of experience rounded to the nearest year in either nursing home or hospital management, defined as a position related to supervision of other employees or with decision making authority.

Column F: Report the total compensation included in this cost report, including salary and purchased services which relate to the total hours in Column G. Exclude unique fringe benefits, which should be reported on Schedule 46.

Column G: Report the estimated total hours per year related to the compensation in Column F and were devoted to the nursing home operation.

Column H: Report the estimated total hours per year devoted to other providers, such as a hospital or other nursing home.

Column I and J: Check the appropriate column to indicate if the individual is a member of the religious order operating the nursing home or is an owner or family relation.